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FIGS, Inc. (FIGS)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Thank you for attending the FIGS Second Quarter Fiscal 2025 Earnings Conference Call. My name is Cameron and I'll be your moderator for today. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. [Operator Instructions]

And I would now like to hand the conference over to your host, SVP of Investor Relations, Tom Shaw. You may proceed.

Tom Shaw

Senior Vice President-Investor Relations, FIGS, Inc.

Good afternoon and thank you for joining us to discuss FIGS second quarter 2025 results which were released this afternoon and can be found in our earnings press release and in the shareholder presentation posted to our Investor Relations website at ir.waerfigs.com. Presenting on today's call, our Trina Spear, our Co-Founder and Chief Executive Officer; Sarah Oughtred, our Chief Financial Officer.

As a reminder, remarks in this call that do not concern past events are forward-looking statements. These may include predictions, expectations or estimates, including about future financial performance, market opportunity or business plans. Forward-looking statements involve risk and uncertainties, and actual results could differ materially. These and other risks are discussed in our SEC filings, including in the 10-Q we filed today. Do not

place undue reliance on forward-looking statements which speak only as of today, and which we undertake no obligation to update.

Finally, we will discuss certain non-GAAP metrics and key performance indicators, which we believe are useful supplemental measures for understanding our business. Definitions and reconciliations of these non-GAAP measures to the most comparable GAAP measures are included in the shareholder presentation we issued today.

And now I'd like to turn the call over to Trina.

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

Thanks, Tom, and good afternoon, everyone. Following our strong top line performance in Q1, we were encouraged to see momentum continue in the second quarter, where solid execution drove our largest revenue quarter in our history and powered overall results ahead of expectations. We placed the healthcare community at the center of all we do, and this unrelenting focus is coming through across three highly successful and interrelated areas.

First, we have strengthened our product merchandising efforts through clear assortment architecture, strategic newness, and continued improvements in fit and function. Second, we have created some of our most impactful marketing to date that has resonated broadly across the healthcare community and driven deeper engagement. And third, we have strategically repositioned the business away from broader based promotional periods, driving more productivity and intentionality to our overall business. This high level of execution is generating success in the foundational parts of our business, including the United States, our e-commerce channel, and within core scrubwear. We also believe these successful efforts are being amplified as we move further past the COVID overhang towards a more normalized purchasing and replenishment backdrop.

Looking at Q2, net revenues outpaced expectations with 6% growth supported by several high-quality measures that build our confidence for the balance of the year. From a category perspective, our scrubwear posted an 8% gain, which was the highest growth in the past seven quarters. This is a great example of where integrated merchandising efforts are coming through, and we are energized by what we are seeing here as our collective efforts across newness, fabric, color and fit continue to come together in the seasons ahead.

From a customer perspective, growth in our active customers was supported by solid gains in both acquisition and returning customers. We also saw strong trends in two important measures that we believe are indicative of growing brand health.

First, AOV gained 4% to come in just below our record level achieved last quarter. Second, customers responded particularly strongly during our baseline days with pronounced growth during these periods that more than offset our planned reductions to our promotional days. As a reminder, we are continuing to be more deliberate with how and when we use promotions throughout 2025. Finally, from a geographic perspective, our US business was positive for the second straight quarter, growing on top of the modest gain in Q2 last year.

And as I'll discuss shortly, the international business continues to mix higher as we drive investment and impact to more markets, magnifying our top line momentum, margins were also better than planned. In particular, our team has done a fantastic job of aggressively working to rightsize our logistics footprint and drive efficiencies. While these gains materialized quicker than expected, they are ones that we intend to sustain and build off of going forward. Even as we kept our focus on strategic investments in other parts of our P&L, our adjusted EBITDA

margin improved 390 basis points year-over-year to 12.9%, which we believe demonstrates the power of our model, when top line gains are matched with disciplined expense management.

Looking ahead, we believe we are in a great position to both leverage our first half demand momentum and manage what remains a very dynamic trade environment. Given tariff uncertainty, our team had a productive trip during Q2 to visit a number of our key suppliers, where we focused on fortifying our strong relationships, building flexibility in our footprint, and driving future innovation and development. FIGS remains an important sought after partner for suppliers supported by the non-seasonal or replenishment nature of our assortment. Sarah will detail our outlook inclusive of last week's trades updates. But even with the current tariff assumptions, we believe our revenue strength and early cost mitigation efforts position us favorably from our call three months ago. Overall, this means an improved outlook with fiscal 2025 top line now expected to grow low single digits and an increased adjusted EBITDA margin range to 8.5% to 9%.

To be clear, there is more work to be done here as we plan for tariff impacts in 2026, but are encouraged by the mitigation options in our toolkit as we look across supplier negotiations, ongoing SG&A savings and focused pricing actions.

Now shifting back to our strategy where serving healthcare professionals remains at the heart of all we do. We continue to focus on what impact we can have on our community and how we can best celebrate them. We believe these are the key measures to differentiate the brand with healthcare professionals and ultimately drive the value of our company to all stakeholders. To that end, we're incredibly proud of our recent efforts.

On our last earnings call, we were right in the middle of Nurses Week, which went on to become one of our most comprehensive and impactful effort for the celebration to date. We hosted 18 events across the country, capped the week with a feature on the Jennifer Hudson Show, and unveiled a powerful new chapter of our Where Do You Wear FIGS campaign, a rallying cry to uplift nurses and spotlight the impact they make every day. The response was extraordinary. FIGS had approximately 900 million impressions easily attained in the largest Nurses Week reach in our history. Film views were up an incredible 10x year-over-year and overall social engagement was up 5x.

As with all brand building efforts, we expect the full impact to compound over time. But we believe the extraordinary engagement we're seeing is already fueling growth in our business and we're not slowing down. Just this week, we launched the fourth chapter of Where Do You Wear FIGS, filmed at the University of Wisconsin, the alma mater of our Co-Founder, Heather Hasson. This chapter puts the spotlight on students, their real challenges and their aspirations as they pursue a career in medicine. It's also the cornerstone of our Back to School campaign, which importantly returned to its regular cadence this year. We're excited to carry this momentum into the second half of the year with more chapters to come, all rooted in our mission to celebrate, empower and serve our community in meaningful ways.

As we think about furthering our impact, we set a new bar for ourselves when we headed to Washington, D.C. in June with 18 extraordinary FIGS ambassadors for Awesome Humans on the Hill. This event is a capstone to our on the ground efforts in D.C. throughout the year to advocate for solutions to the biggest policy challenges facing healthcare professionals. And this year we went bigger than ever. During this year's Awesome Humans on the Hill, we focused our efforts on three key issues from our policy platform. To ease financial strain, we lobbied for the Awesome Humans Act developed by FIGS to provide a tax credit for healthcare professionals. To protect mental health, we urge the reauthorization and funding of the Dr. Lorna Breen Health Care Provider Protection Act. And to alleviate administrative burdens and return the focus to patients, we advocated for the Reducing

Medically Unnecessary Delays in Care Act, legislation that would make much needed improvements to the broken prior authorization system.

We brought our advocacy efforts directly to both the biggest powers in Congress and all Americans, with the support of actor and healthcare advocate, Noah Wyle from The Pitt and ER and even more importantly, his mother, [ph] Marjo Wyle(00:31:46), an orthopedic nurse of nearly 50 years. Recently nominated for Emmys for Best Drama and Best Actor for Noah, The Pitt has served as Noah's love letter to frontline healthcare workers and highlights the same challenges we have been working so hard to address with our advocacy. Together with Noah and our team of ambassadors, we had over 35 meetings with policymakers from both sides of the aisle and held a congressional briefing to a packed room in the capital. We also had live segments on CBC Morning and ABC News, a powerful op-ed in USA Today, and captured over 5 million organic views from our social posts alone. Bottom line, there is no healthcare without a well-cared for healthcare workforce. And it's our privilege and our responsibility to ensure that lawmakers keep this top of mind as they craft healthcare policy.

Moving to our international strategy, where we drove impressive gains across Mexico, Europe, Latin America and the Middle East. Similar to last quarter, we saw some softness in Canada, largely given an outsized impact of our promotional pullback. However, we were encouraged with positive performance during our full price periods in this market and have continued to take localized action to spur demand. Our overall international approach this year has centered around investing and execution. A key milestone in Q2 was the debut of our business in Japan, where we are off to a good start. Our main focus is to continue to listen and learn from our community and apply localized strategies to drive awareness.

Next up in Q3, we're adding another important country to our roster with the planned launch of South Korea. We are taking a similarly measured approach there, learning cultural nuances, and preferences. We are excited to take these two big steps as we start to expand our business across the Asia-Pacific region and look forward to seeing the impact on our business in 2026 and beyond. As we indicated last quarter, we're also harnessing technology to expand our regional approach to new markets. This strategy focuses on leveraging regional commonalities like purchase behavior, language and seasonality, allowing us to accelerate our entry into additional markets while retaining a premium brand positioning. Just last week, we utilized this program in Latin America to open 12 new markets across the region.

Finally, we are in the early process of investing resources in-market across our business functions. We will have more to come on this front over time as we focus our initial efforts on Canada, the UK and Mexico.

Our investment focus this year extends to our TEAMS business, where we continue to see immense opportunities to reach new global healthcare institutions. over time. To truly scale this opportunity, we are hyper focused on several areas this year. This starts with adding talent and driving sharper focus in how we build relationships across a diverse range of healthcare institutions. We then support these efforts by expanding our work on the technology side, supporting flexible customer solutions, and a streamlined user experience. Finally, we're building out our marketing engine to support the overall awareness of this business.

Importantly, we continue to believe these TEAMS efforts will have added importance as we look outside the US, where there are different buying nuances and preferences. Community hubs also remains an exciting opportunity to extend our engagement with new and existing healthcare professionals. As we outlined last quarter, the channel continues to see about 40% of customers coming in new to the brand, and approximately 30% of these acquired customers go on to purchase through our e-commerce channel. We're also capturing unique insights in the channel. For example, during the second quarter, this included a stronger core scrubwear mix, stronger men's penetration, the higher adoption of our FORMx fabrication, and the ongoing success of embroidery. Our ability to

bring the brand to locations that add convenience to the busy lives of healthcare professionals also makes community hubs appealing.

Last quarter we highlighted our next hub is in Houston, which is opening within steps of the world's largest medical complex. We are also excited to announce that we're working toward planned openings of our next two hubs in New York City and Chicago. Opening the Upper East Side, the New York location combines a densely populated residential area, strong existing e-commerce demand, and a high concentration of premium healthcare institutions. This includes Memorial Sloan Kettering, New York-Presbyterian, Weill Cornell, and Lenox Hill. Our Chicago location will open near the Illinois Medical District, one of the largest in North America. With planned store sizes ranging between our existing two locations, we are excited to take early learnings and apply an updated design to these three new openings.

Before handing the call over to Sarah, I want to reiterate our growing confidence in the momentum of our business and our excitement in the opportunities we see ahead. We are managing macro uncertainty well, executing in the areas we can control, and setting ourselves up for continued success. We are supported by an incredibly strong balance sheet which allows us to make thoughtful, strategic decisions in how we invest today and also return value to shareholders over the long term. And most importantly, we are proud of how our unrelenting focus and leadership in the healthcare space supports this amazing community.

With that, I'll pass it over to Sarah.

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

Thanks, Trina. FIGS' strong second quarter results were above expectations on both top and bottom lines, highlighting the ongoing momentum of our efforts with product, marketing, and promotional repositioning, and demonstrating the successful execution of some of our targeted expense measures.

Net revenues increased 6% year-over-year to \$152.6 million, above our outlook of approximately flat performance for the period. We were particularly encouraged by strength in some of the core elements of our business, including improved trends in our overall scrubwear category across core colors and styles, strong growth in our business-as-usual selling periods, and the overall growth in our domestic business as we reached new quarterly sales record in the US. As planned, we also continue to execute on a more intentional pullback with our promotional strategy in 2025. While this create headwinds year-over-year, we believe this sets us up for long term success and we are pleased to see more productivity during this year's more limited offerings. Looking further at our trends, AOV increased 4% to \$117, primarily driven by higher average unit retail due to product mix and lower return rates.

On the customer front, while we continued to see some impact from our promotional changes this year, we were excited to see improving acquisition trends and the ongoing success of reengaging returning customers. Overall, our active customers increased 4% year-over-year to 2.7 million, while net revenues per active customer eased less than 1% to \$208.

By category, scrubwear grew 8%, representing 83% of net revenues for the period and exceeding our expectations. As Trina mentioned, we have been effective across our product merchandising efforts, driving momentum to our core, and supporting productive new colors and style launches. We also progressed on our fit efforts with key styles starting to be fully updated during Nurses Week. Non-scrubwear decreased 3%, representing 17% of net revenues. The category overall had a higher negative impact from the pullback in our

promotional strategy. Additionally, our intentional shift in the marketing calendar and overall campaign focus put more of the product spotlight on our core scrubwear business during the period.

By geography, US sales increased 4% to \$129.9 million, our strongest performance in nearly two years and supported by balanced growth from both new and repeat customers. International net revenues increased 20%, with many of the same dynamics seen in the US playing out globally just at a higher rate. This includes strong, new and existing customer growth and great performance during our baseline days.

Gross margin for Q2 contracted 40 basis points to 67%, still continuing to trend in a fairly tight range over the past year. Results were impacted by higher inventory reserves and a modest impact from higher tariffs and were partially offset by a higher duty drawback and a lower return rate. Our selling expense for Q2 was \$34.4 million, representing 22.6% of net revenues, compared to 25.6% last year. We were proud of our efforts here with several of our efficiency and mitigation strategies across both fulfillment and shipping taking hold quicker than expected.

On the fulfillment side, we are driving continuous improvements across the board as we work to optimize operations and align costs at this much larger distribution center. While outbound shipping had been a headwind, we took swift action to optimize our carrier mix and pricing, driving significant savings without sacrificing service.

Marketing expense for Q2 was \$23.2 million, representing 15.2% of net revenues, down from 15.9% last year and generally in line with expectations. G&A for Q2 was \$34.7 million, representing 22.8% of net revenues compared to 24.8% last year. Similar to last quarter, the Q2 decrease in the G&A expense rate was due to meaningfully lower stock-based compensation expense. This impact was partially offset by higher people costs as we invest in scaling the business, as well as higher depreciation related to asset purchases for the fulfillment center. In total, our adjusted EBITDA for Q2 was \$19.7 million, with an adjusted EBITDA margin of 12.9% compared to 9% last year. Net income for the quarter was \$7.1 million or diluted EPS of \$0.04 compared to net income of \$1.1 million last year or diluted EPS of \$0.01.

On to our balance sheet, we finished the second quarter with a strong net cash, cash equivalents and short-term investment position of \$238.8 million. Inventory increased 14% year-over-year to \$135.5 million, or up 8% on a unit basis. The delta between dollar growth and unit growth during the quarter reflects the impact of higher average unit pricing due to product mix and some modest tariff impact. For the balance of the year, we currently expect unit growth to continue to outpace revenue growth given planned product introductions and deeper investments in select areas of the business. We also expect total inventory growth will accelerate the next two quarters, widening the gap with unit growth as higher tariff goods are brought in.

On the capital allocation side, we did not repurchase shares this period and have \$52 million available for future repurchases under our current share repurchase program. In the near term, we plan to focus on prioritizing investments in our business and preserving our balance sheet strength as trade dynamics stabilize.

Capital expenditures for the quarter were \$1.1 million, and we now expect approximately \$6 million for the full year.

Now turning to our outlook for the balance of the year. While the tariff backdrop continues to evolve, our year to date execution and effective strategic planning are supporting higher top and bottom line outlooks from what we outlined three months ago. Embedded in this outlook, we continue to expect an unmitigated tariff impact of approximately 150 basis points, so we'll cover how the assumptions in this estimate have evolved. Considering the net impact of several factors, including an improved top line, successful mitigation initiatives and ongoing investments, we are now pleased to be back within 50 basis points of our original 2025 outlook.

Looking at the specifics, full year 2025 net revenues are now expected to grow low single digits year-over-year, improving from our prior outlook of down low single digits. This updated range includes the outperformance from our Q2 results as well as added confidence in our second half assumptions. As we have outlined today, we have been successful in reinvigorating our customer funnel and accelerating growth across core elements of our business, which we believe will better support back half of the year trends. However, we continue to factor in two dynamics that are expected to limit our second half performance.

First, we expect a greater headwind from our ongoing promotional changes with more aggressive reductions of promotional days planned in Q3 and Q4. Second, we continue to factor in some uncertainty around macro consumer behavior, particularly as trade policies continue to unfold and the consumer faces a range of potential pricing impacts across purchase decisions.

Looking specifically at the third quarter, we are planning for net revenues in a range of flat to up 2% growth year-over-year. On to gross margins where we expect approximately 150 basis points of total pressure for the year, which corresponds with the expected tariff headwind. As it relates to our current tariff positioning, we have worked to evolve our supplier footprint with production now balanced between Vietnam and Jordan while further limiting what was already very limited production in China. With this mix, we are currently planning for added tariffs of 20% in Vietnam, 15% in Jordan and 30% in China. While the weighted average impact of these assumptions results in a larger annualized headwind than previously expected, the net incremental impact to 2025 is minimal. This is due to both the earlier favorability in China assumptions and also the later effective dates in Vietnam and Jordan.

With average costing and sell through assumptions, the tariff impact is expected to build in Q3 and then again in Q4. Notably, the Q3 tariff headwind is planned to be largely offset by the benefits of our promotional repositioning, as well as additional cost mitigation efforts, resulting in an overall gross margin contraction of approximately 50 basis points. However, the growing Q4 tariff pressure, coupled with lapping a sizable onetime benefit from duty drawback claims, creates a meaningfully higher margin drag planned that quarter. While the planned tariff pressure will build into 2026, we have a number of levers across supplier negotiations, expense savings and targeted pricing that we will look to deploy next year.

In SG&A, we expect a number of sizable expense rate moves over the next few quarters, given the timing of comparisons of certain investments as well as from our mitigation strategy. Last year's selling expenses reflected higher fulfillment center expenses, including significant transitory costs in Q3, followed by higher-than-expected operating costs in Q4. As we lap the transitory portion of these costs this quarter, our scaling efforts and mitigation strategies are also driving savings and expect the overall selling rate to make meaningful progress in returning closer to 2022 and 2023 levels.

The marketing expense rate is expected to be down slightly for the full year, primarily given the Olympics comparison, which would drive sizable expense leverage this Q3. We note a meaningfully higher rate of spend now planned in Q4, partially given the lower investment rate in the prior year's period, but also to ramp up investments ahead of the 2026 Winter Olympics, which begins in early February. G&A expenses will continue to reflect higher planned people costs, which will be more than offset by what is now planned to be a \$14.5 million reduction in stock-based comp year-over-year.

As we look at full year adjusted EBITDA margin, which includes the impact of stock-based compensation expense, we now expect a range of 8.5% to 9% ahead of our prior outlook of 7.5% to 8.5%. For Q3, we expect an adjusted EBITDA margin of 9% to 9.5%, up significantly from 3.4% last year, given the discrete investment during

that period. This also means a sharply lower planned Q4 margin given the ramping impacts of tariffs and our marketing timing. Overall, I would like to reiterate how excited we are to see our healthcare customers respond so well within this environment. We have built a powerful leadership position within the healthcare apparel space and are now driving even more impactful and expanded engagement across product, channel, and geographies.

At the same time, our team has quickly responded in this challenging trade environment, executing a range of cost savings opportunities while also ensuring dollars are deployed to support the long-term opportunity. We look forward to building on this execution in the quarters ahead.

I will now turn the call back over to the operator for Q&A. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] We will pause here briefly as questions are registered. The first question is from the line of Adrienne Yih with Barclays. Please proceed.

Angus Kelleher-Ferguson

Analyst, Barclays Capital, Inc.

Q

Hi, this is Angus Kelleher on for Adrienne Yih. Thanks for taking our question. I wanted to ask about AOV and product innovation impact. So AOV increased 4% in Q2 and has shown steady improvement over recent quarters. Can you rank order the drivers of this recovery in terms of how much is promotional strategy, product mix or new product launches? And then on that note, what's your outlook for AOV progression for the rest of 2025? Thank you.

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

A

I can start and then Sarah, if you want to jump in. Thank you Angus for the question. I think it's important when you think about AOV, which was our second best quarter, we had \$117, up 4%. When you think about product innovation, this is really a function not only of being the most what we believe to be the most innovative company in the space. It's also a function of being a uniform company. And so a lot of what's driven our success is that, healthcare professionals are coming to FIGS for their uniform and then they're coming back to us over and over. They're buying our newness, they're buying our limited edition products. And then in addition, they're replenishing their core scrubwear. And so that's a really great dynamic. In that AOV, you're seeing a lot of people kind of engaging with higher priced products that have an AUR is really driving that, and that's also really exciting to see. In terms of ranking the pieces of AOV if Sarah if you want to jump in on that.

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

A

Sure. So the most favorable impact came from product mix shift. And then we also had some favorability in returns.

Angus Kelleher-Ferguson

Analyst, Barclays Capital, Inc.

Q

Great. Thank you. That's it for me.

Operator: The next question is from the line of Dana Telsey with Telsey Group. You may proceed.

Dana Lauren Telsey

Analyst, Telsey Advisory Group LLC

Q

Hi. Good afternoon, everyone, and congratulations on the nice progress. As you think about the engagement you've had with the customer and certainly we're seeing it now in some of the metrics that you mentioned, Trina, with the active customers, both new and existing. How are you thinking about the newness go forward and the pricing given the tariffs coming in with the normalization that's returning to the healthcare professionals and their buying habits? How are you planning for pricing? Is part of it the tariffs, is part of it the innovation that you're delivering? How should we think about the go forward? Thank you.

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

A

Sure. I can start. And Dana, thank you for the question. No, I do think when you think about our success, it's really a result of a lot of the execution that we've been discussing over a long period of time. And we're now seeing the results of our efforts. That execution can be seen across the business. And it really starts with and you mentioned it product, it starts with product and marketing. Those are our two north stars. And we've made significant investments in these areas and we're starting to see that investment pay off. So on the product side, we're delivering the best products that meet the needs of our healthcare professional. Like I was saying, the core is really resonating and it continues to resonate. We've made steady improvements on fit. We continue to be on our journey on fit and we're seeing a lot of great feedback as well as function. And that's what we're known for, being the highest quality, most comfortable medical apparel in the world.

And on top of that, we're kind of – we had really delivered a very clear assortment architecture that enables us to be strategic when it comes to newness and when it comes to color drops and style drops across categories. So that's been really exciting to see. And then on the marketing side, we're really combining what we're doing as it relates to storytelling around product and around our Awesome Humans and kind of combining that with the product and seeing incredible success.

Sarah, do you want to talk about the price? Oh, in terms of the pricing, I think we talked last quarter about, pricing is kind of our last resort in terms of how to offset tariffs. It's something we've been extremely thoughtful about. And as you know, Dana, healthcare professionals need our products to do the work that they do. And nearly two-thirds of our customers make under \$100,000 a year. Additionally, 80% of our product is core. So we need to be really mindful when we're thinking about pricing changes.

And so, as a result, we think – we really do feel the right thing to do is use every other tool in our toolkit to mitigate the cost pressure before increasing prices. So what are we looking to do? Number one, we're optimizing our sourcing mix. We have a number of suppliers across regions and we're really able to take advantage of more favorable tariff rates in different parts of the world. We are – secondly, we're negotiating with our suppliers and with our manufacturing partners. And we've made a lot of progress here. And there's more work to do, but we feel good about the conversations we've had. Third, we are optimizing both our inbound and outbound freight. And finally, we're looking across the P&L and finding efficiency within G&A. As once again, pricing is something that, is comes after exhausting all these other areas. And any action that we do do in terms of pricing, we're really going to be mindful of a number of principles. We need to be affordable and accessible. That is what we are known for.

We are committed to having the absolute best products at prices that we believe are affordable and accessible for healthcare professionals. Our pricing will be targeted. We will look to be targeted across products, across categories where we believe we have pricing power. And finally, we're going to be very mindful around pricing impacts and thinking about elasticity of demand. Sarah, I don't know if you have anything to add? Okay. I think that's it. Thank you so much, Dana.

Dana Lauren Telsey
Analyst, Telsey Advisory Group LLC

Q

Thank you.

Operator: The next question is from the line of Brooke Roach with Goldman Sachs. You may proceed.

Brooke Roach
Analyst, Goldman Sachs & Co. LLC

Q

Good afternoon and thank you for taking our question. I have a follow-up to that last question on tariffs. Sarah, could you quantify the annualized impact from tariffs that you expect both on a mitigated and unmitigated basis? It sounds like pricing will be very strategic, but will that pricing be a global price increase or a local price increase? And when are you thinking about contemplating implementation of that price? Thank you.

Sarah Oughtred
Chief Financial Officer, FIGS, Inc.

A

Thanks, Brooke. Yeah, so we've shared that our tariff impact for 2025 is going to be 150 basis points. And that's based on the rates that are in effect today. So, 20% for Vietnam, 15% for Jordan and 30% for China. That is consistent with what we had shared last time. But there have been some movement within that. So we did see the reduction in China rate, though even on a very small mix, it's had some positive impact. And then while the rates for Vietnam and Jordan are higher than what we had guided to previously, the later effective date limits the incremental impact. And we've also continued to optimize our sourcing mix. And then how you can think about the phasing of that? We continue to expect the basis point impact of tariffs to grow progressively throughout the year, and we haven't shared what that impact will be for 2026. I think something for you to consider is that the vast majority of our COGS is subject to tariffs and 85% of our sales are to the US. So I think with that, you can probably come up and drive what a reasonable range of annualized impacts would be. And we're actively in the work to mitigate that. Trina shared some of those mitigating actions and shared our pricing philosophy. So at this point, our guidance for 2025 does not reflect any pricing impact. We're going to continue to work on our mitigation strategies. And as Trina said, we will wait and really consider the right time for any particular pricing.

Q

Great. Thanks so much. I'll pass it on.

Operator: The next question is from the line of John Kernan with TD Cowen. You may proceed.

John Kernan
Analyst, TD Cowen

Q

Good afternoon. Congrats on a nice quarter.

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

Thanks, John.

A

John Kernan

Analyst, TD Cowen

I've got one for Trina and one for Sarah. Trina, just within the guidance for revenue, it seems like there's a decel implied in both average order value. You addressed some of those points earlier, but how should we think about active customers in the back half of the year? It seems like you're pretty excited about some of the engagement you've had with existing customers and customer acquisition. So just trying to think how we should model that going into the back half.

Q

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

I can take that one. Yeah. So, we've guided to revenue of 0% to 2% in Q3 and then, depending that gives you a range of where we would be at for Q4 with our low single digit guide for the year. And so, while we've seen great progress in a lot of our metrics, keep in mind that the second half of the year will have the largest impact from our pullback in promo. So that will have some impact on our trends in terms of customer acquisition and in terms of our order value as well. So you can see that, you can plan that you won't see the same growth rates in those metrics that we've seen in Q2 just given the pullback in promotion. But really excited for what we see underneath that promotion on our business-as-usual days.

A

John Kernan

Analyst, TD Cowen

Got it. And then maybe just a follow-up on selling expenses, obviously, really nice leverage this quarter, over 300 basis points. There's still a ways to go to get back to that 2023 kind of selling expense as a percent of sales. Just curious how you're thinking about the leverage on that line item into the back half of the year? And is there a specific timeframe when you think it's reasonable to get back to that 22.9% that you generated in – for the full year that you generated in 2023?

Q

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

Yeah, so really excited with the progress that we've made in this area. The progress has come faster than what we expected, given that we've really ramped our effort there and have been really great at delivering on that. So we've seen some of those savings both within shipping and within fulfillment, and we'll continue to realize the benefits that we're seeing and continue through with what have been realized. So these are sustainable savings because they come as a result of actions that we've taken that will be permanent, over time. And so we're feeling increasingly confident that we will be able to return our selling rates back down to that 2023 level by next year. So, we're well on our way and excited that we're going to get there faster than what we had originally thought.

A

John Kernan

Analyst, TD Cowen

Okay. And just one follow-up on that. The revenue growth will be a little bit slower in the back half, does that imply there'll be a little bit less leverage on the selling line?

Q

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

Yeah, that [indiscernible] (01:03:06).

A

John Kernan

Analyst, TD Cowen

Okay.

Q

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

Yeah, that's right. Yeah.

A

John Kernan

Analyst, TD Cowen

Okay. Got it. Thank you.

Q

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

Thank you.

A

Operator: The next question is from the line of Ashley Owens with KeyBanc Capital Markets. You may proceed.

Chris Brazeau

Analyst, KeyBanc Capital Markets, Inc.

Hey, guys. This is Chris on for Ashley. Thanks for taking our question. So I wanted to talk about, I mean, it's great to see the growth in scrubwear this quarter. And I'm wondering if you just expand a little bit on the softness in non-scrubwear and maybe if we can expect any rebound from apparel or lifestyle launches and 3Q?

Q

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

Sure. Thanks, Chris. You know, in terms of non-scrubwear, there is some noise in the quarter. We did have less non-scrubwear launches in Q2. And so, when you're looking over any 90 day period, there's going to be some noise. But when you zoom out, our stacked three-year growth rate on non-scrubwear is 35%. So we know non-scrubs is a healthy business that healthcare professionals love. We are a lifestyle brand, outfitting healthcare professionals to work, at work, from work, on shift, off shift, head to toe. And so, you know, we're going to continue to really be the brand for them throughout their life. And we also know there's really a huge opportunity to go even deeper. And that's just one example. If you look at our underscrubs business, it really is one fabrication, the Salta underscrubs for women, the Makato underscrubs for men. And so there's much more that we're excited to build out here. And without giving away our plans, that's not just – it's not just within underscrubs, it's within footwear, within outerwear, within actually our compression sock business. We're expanding into more franchises. And we're excited to kind of keep building the portfolio and really giving our healthcare professionals more of what they love.

A

Chris Brazeau

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, great. And then just one follow-up on share repurchases. So obviously none this quarter, but I'm just kind of wondering maybe as we move throughout the rest of the year, like how you're balancing choosing to repurchase versus maybe growth initiatives and if there's any areas you're looking to be more opportunistic in.

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

A

Yeah. So as we said in our remarks at this time, we're focusing on deploying our capital and prioritizing that towards growing the business. We've set out on that this year and we've been really successful so far, as you can see from our results. So we know that that investment is working for us. And we're going to preserve our balance sheet just given some of the uncertainty. That said, we will continue to be opportunistic, but we will be more conservative given where we are at previously.

Chris Brazeau

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Great. Thanks, guys. I'll pass it on.

Operator: The next question is from the line of Brian Nagel with Oppenheimer. You may proceed.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Q

Hey, good afternoon. Congrats on continued progress here. Nice quarter.

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

A

Thanks, Brian.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Q

The question I wanted – I guess my first question, a little bit longer term, but as the business is recovering here, we've started to see this clearer now over the last [ph] period and several (01:06:26) quarters. I guess, how should we think about the what should be a healthy growth rate, top line growth rate for FIGS? And then, within the context of that, to get there, what still needs to happen? We know like I said, we've seen the business start to recover here. But still not [ph] where maybe where we were. So where (01:06:46) can we get to and what has to happen to get it there?

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

A

Yeah. So we're not going to give any guidance at this point on specifically what our growth rate is going to be. But I think, we're pretty clear on what our growth algorithm is. And first part of that was really returning our core business to growth. And so we're on our way to do that as you can see with some of the results that we've produced in terms of our US business returning to growth, reinvigorating the growth within our new customers as well, and in scrubwear as well. So we're on our way there, and there's more room for us to continue to grow within the core of our business. And then we have our opportunities within our growth drivers, within TEAMS, International and our retail hubs. And so we've set out what those strategies are and we're still early days in those avenues. And so we'll see that I think ramp up more so in 2026 and onwards. And we're seeing good proof points that what we're doing to drive growth there is working and we'll need to continue to invest in building out the

resources, the people, the capabilities behind those. And we've been doing that already and it's working. So we will continue to do that and look forward to continuing to drive growth in the business going forward.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Q

That's helpful. I appreciate it. And my follow-up question is on tariffs and recognizing FIGS is unique. There's really not much in the way of direct competition. But the question I would ask is, you seem like your strategy towards the tariffs is solidifying nicely. Are you seeing tariffs cause any type of disruptions within your competitive set, either positively or negatively for FIGS?

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

A

No, I think you know how I feel about this question, Brian. We try not to look left or right. We're really focused on our own business and continuing to lead the industry from a product standpoint, from a marketing standpoint, from an execution, customer experience standpoint. But you can do some digging and you'll see that we're pretty well positioned in the space.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Q

Got it. No, I appreciate that. Thank you. Congrats again.

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

A

Thank you.

Operator: The next question is from the line of Matt Koranda with ROTH Capital. You may proceed. Matt, your line may be muted.

Matt Koranda

Analyst, ROTH Capital Partners LLC

Q

Sorry about that guys. Can you hear me now?

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

A

Yeah, you're good.

Matt Koranda

Analyst, ROTH Capital Partners LLC

Q

Okay, perfect. Sorry about that. So I guess I was – wanted to take a look at the sales progression in the second quarter. It looks like the growth came in quite a fair bit ahead of the flattish guide that you gave for the quarter. So maybe just wanted to hear about how the quarter progressed in May and June and just any comments you have on July? And how that sort of fits into the second half guide that implies kind of flattish sales.

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

A

Yeah, definitely. So, our guide of flat on the quarter was really reflecting that we were comping over a strong period of growth last year that was driven by newness. And we did say that the flow of product launches this quarter would be a little lighter relative to other quarters. And we were just being prudently cautious amid the current environment. And what we've seen is we were able to overcome all of those headwinds, seeing really great overall growth in our baseline business as usual days. And we saw progress towards the end of the quarter as it was related to some of our color launches and newness. And really seeing all of the things that Trina had spoken about earlier that's really supporting our product and marketing really start to turn on. And so as we enter into Q3, we're seeing the trend from Q2 continue. But keep in mind that Q3 will have a much bigger impact from the pullback in promo than what we saw in Q2. So while those trends are there, there's going to be a larger headwind into Q3. And that's why our guide of 0% to 2% is lower than where we were where we finished off in Q2.

Matt Koranda

Analyst, ROTH Capital Partners LLC

Q

Okay. And then maybe just a little bit more on the pullback in promos in the second half. Can you talk about like how that shows up? Is that sort of less sample sales and sitewide promos? Is it sort of the same number of promotional events with shorter duration? Is it lower depth of discount? Like what's the right way to think about sort of the posture there?

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

A

Yeah, I mean, it's really all of the above. And so we've really shifted to have our sitewide promos be more specific to events that celebrate healthcare professionals. So for example, in the second quarter, we still did our Nurses Week promo, in Q1 we still did Match Day. And right now, we're doing our Back to School, which is large for healthcare workers as well. And so we have pulled back on some of the sitewide promos that are – were more generic in the past. And we've also taken the time to shift some of these promos to be more sample sale focused. So clearing out older inventory rather than the sitewide off of everything. So we're just being more strategic with the way that we're delivering it, the timing and the length. So, there's a broad variety of shifts that we are making in each of our quarters this year.

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

A

And the only thing I would add to that is just the reason we're able to pull back is because our baseline days are really strong. And that's why we really feel great about the health of the business over the long run, protecting the brand, ensuring that we are doing everything we can to deliver the best product and engage our community in meaningful ways. And so really feel good about the long-term health of the business.

Matt Koranda

Analyst, ROTH Capital Partners LLC

Q

Okay. Super helpful. I'll leave it there. Thanks.

Operator: Next question is from the line of Rick Patel with Raymond James. You may proceed.

Rick B. Patel

Analyst, Raymond James & Associates, Inc.

Q

Good afternoon and congrats on strong execution. I did have a question on inventories. So did it reflect any pull forward given the uptick in costs related to tariffs? And I think you touched on investing in certain areas of the business as well. Just some additional color would be there on inventory.

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

A

Sure. Thanks, Rick. So our inventory was up 14% on a dollar basis. A portion of that is due to tariffs related to receipts that came up. If you look at it on a unit basis, we are up 8%. So the differential is really from a mix shift in the cost base towards higher cost goods. You can think about that as some of our higher cost scrubwear as well as outerwear and shoes as an example. And then once you look at that 8% growth in units, yeah, that is definitely being driven by in-transit as we did pre-position some inventory to get ahead of the original tariff date. So some of that is pull forward.

Rick B. Patel

Analyst, Raymond James & Associates, Inc.

Q

Got it. And then could you just help us understand the international growth rate? How much did you benefit from FX in the quarter? And what kind of currency benefit do you have baked in for the back half?

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

A

Yeah. So we haven't shared the specific impact of FX, although it was not a material impact. So keep in mind that international is 15% of our business. So it wouldn't be a large impact on overall growth rates. We're really excited with where international finish at a 20% growth rate on the quarter, which was up from 16% that we delivered in Q1. International still at 15% of the business and really seeing good growth rates and that growth coming from Mexico, Europe, Middle East, Latin America and that is really healthy growth coming from both new customer acquisition as well as returning customers. So, really happy with the progress that we're seeing as broad-based growth across many regions and across many different customer metrics in international.

Rick B. Patel

Analyst, Raymond James & Associates, Inc.

Q

Thanks very much.

Operator: Our final question comes from the line of Nathan Feather with Morgan Stanley. You may proceed.

Nathan Feather

Analyst, Morgan Stanley & Co. LLC

Q

Hi, everyone, and thanks for taking the question. You noted some macro headwinds implied in the full year guide. [ph] I just want to get a sense of (01:16:16) what you're building in across the range in 3Q and the full year. And then is there something you're seeing recently that causes you to build on that or [ph] more just being driven given the volatility we've seen (01:16:25)? Thanks.

Sarah Oughtred

Chief Financial Officer, FIGS, Inc.

A

Yeah. So I would say that the majority of the pullback in growth rates in 2H versus where we have performed in 1H, is due to the expectation of a larger impact from pullback in promo. And so that's really the greatest piece of it. And I would say that our revenue guide accommodates for various different scenarios. And there is some – we are being prudent. The environment is still uncertain. So, we feel like that we are giving appropriate guidance based on what we see in our business right now.

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

A

And I would just add, from a macro standpoint, healthcare jobs are growing three times faster than the overall job market. And there's been, as you know, a long running staffing shortage within healthcare doctors, nurses, et cetera. So, the demand for healthcare professionals really high. We've also talked about this COVID overhang. And the idea that healthcare professionals stocked up, right, during the pandemic and that caused them to slow their purchasing behavior. Fortunately, we're continuing to see signs that we're getting further away from the pandemic, and that overhang is easing and we're entering a more normalized purchasing environment. And so, in some of the metrics that we're looking at that is showing this shift, we talked about AOV growth almost matching our record quarter last quarter. We're seeing acquisition trends, trending positively. We're seeing customers are coming back to us and we're seeing accelerated growth in the US, in scrubwear and in e-commerce. So this gives us a really a lot of reasons to believe that we're starting to operate in a more normalized environment, that our – the health of our customer, healthcare professionals is really strong. And we're really hopeful about the future of our community and of our business.

Nathan Feather

Analyst, Morgan Stanley & Co. LLC

Q

Great. That's really helpful. And then just [indiscernible] (01:18:39) excited to see the community hub expand in 4Q. Just if you get a sense I know you've been in a little bit of a test and learn phase with the first two community hubs, given the expansion here, is this kind of just an expansion of that test or should we expect maybe a more consistent increase of community hubs as we go into 2026 and 2027 as you sort of lock down the operating model?

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

A

We are opening more community hubs. So we talked about Houston is coming. We just announced for the first time ever New York City and Chicago are coming and much more to come. So we're really excited by being in person with our community. We continue to see nearly 40% of our customers in our community hubs are new to the brand. 30% of those acquired customers are coming back and becoming omnichannel, customer shopping online. And so, it's really exciting. We're seeing really strong, incrementality in the markets that we're in. And we're excited. We're excited to go to more markets, go to more cities, engage both online and offline. We're really learning, what's working for us in terms of format, location, how close to healthcare institutions, being close by the best, largest healthcare institutions in the country. So, couldn't be more excited about where we're going. We've also learned a lot in terms of the design and we're making a lot of tweaks to future community hubs. So it's very exciting time. And thank you for the question.

Nathan Feather

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Very exciting. Thank you.

Operator: That was our last question. So I would now like to pass the conference back for any closing remarks.

Trina Spear

Chief Executive Officer, Co-Founder & Director, FIGS, Inc.

Thank you all for joining us. It was a great quarter and we look forward to seeing you next time.

Operator: That concludes today's call. Thank you for your participation and enjoy the rest of your day.

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